

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 6621**

**BILL NUMBER:** SB 410

**NOTE PREPARED:** Jan 18, 2014

**BILL AMENDED:**

**SUBJECT:** PERF and TRF Cost-of-Living Adjustments.

**FIRST AUTHOR:** Sen. Hume

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides for an annual cost-of-living adjustment (COLA) for members (and the survivors or beneficiaries of a member) of the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF) equal to the quotient of: (1) the product of the total amount the respective fund paid for benefits provided by employer contributions during the preceding state fiscal year multiplied by the annual percentage change in the Consumer Price Index for All Urban Consumers; divided by (2) the total number of members, survivors, and beneficiaries who received a monthly benefit from the respective fund during the preceding state fiscal year.

**Effective Date:** July 1, 2014.

**Explanation of State Expenditures:** The bill creates an automatic (ongoing) COLA that is tied to the Consumer Price Index for all Urban Consumers (CPI). Table 1 reports an actuarial estimate of the cost to the state based on the estimated long-term average change in the CPI.

<b>Table 1. State Increase in Pension Benefits from Consumer Price Index Recurring COLA</b>				
	<b>Increase in Present Value of Future Benefits</b>	<b>Employer Cost Increase</b>	<b>Current Funded Status</b>	<b>New Estimated Funded Status</b>
<b>PERF (State)</b>	\$955 M	\$35 M	77.6%	71.2%
<b>Pre-1996 TRF</b>	\$2,731 M	\$124 M **	31.8%	29.0%
<b>C&amp;E Plan</b>	\$35 M	\$0.6 M	83.5%	73.8%
<b>Legislator DB</b>	\$0.6 M	\$0.03 M	79.8%	73.6%
<b>Total</b>	<b>\$3,721.6 M</b>	<b>\$159.63 M</b>	<b>N/A</b>	<b>N/A</b>
* TRF analysis developed by Nyhart. PERF, C&E, and Legislator DB fiscal analysis developed by Pricewaterhouse Coopers.				
** The impact of \$124 M will be pulled from the Pension Stabilization Fund.				

Specifically, the increase is based on the assumption that the COLA provided will be 1.75% in FY 2015, and 2.25% each year thereafter. It is possible that the CPI could, over time, vary from this long-term estimate of 2.25%. History shows average annual CPI rates of as low as 0.1% and as high as 4.1% within the last decade.

The total amount of increases due to the automatic COLA is determined each year for each plan and distributed evenly amongst all retirees and beneficiaries.

Under this bill, the state will bear the costs of the increase for the state-funded portion of PERF (roughly 1/3 of the total PERF system), the TRF Pre-1996 Fund, the C&E Fund, the State Police Pre-1987 Benefit System, and the State Police 1987 Benefit System. The local PERF portion and the TRF 1996 Fund will impact local units.

*Pre-1996 TRF:* For the Pre-1996 TRF Fund, the increase in the present value of future benefits is an estimated \$2.7 billion. The 1996 Fund is paid for through appropriations from the state General Fund and payments from the Pension Stabilization Fund.

*State PERF:* An ongoing COLA tied to the CPI will increase the present value of future benefits of state PERF by an estimated \$955 M. PERF is actuarially prefunded through employer contributions. Employer contribution rates are 11.2% of payroll for FY 2014. Increases to the state PERF annual employer contribution rate due to this provision would be reflected in contribution rates beginning in FY 2016.

*C&E Fund and Legislator DB Plan:* The C&E Fund and the Legislator DB Plan are statutorily linked to any benefit increases provided to PERF recipients. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF and TRF impact.

An automatic COLA using the CPI would cost the C&E Fund \$35 M in increased present value of future benefits. The C&E Fund is actuarially prefunded through employer contributions. The CY 2014 C&E employer contribution rate is 20.75% of payroll. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in CY 2015.

The Legislator DB Plan is actuarially prefunded by state General Fund appropriations. An estimate of the cost of this COLA is \$0.6 M for this plan.

### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** Table 2 reports a preliminary estimate of the cost to local units due to an automatic COLA based on the estimated long-term average change in the CPI.

<b>Table 2. Local Increase in Pension Benefits from Consumer Price Index Recurring COLA</b>				
	<b>Increase in Present Value of Future Benefits</b>	<b>Employer Cost Increase</b>	<b>Current Funded Status</b>	<b>New Estimated Funded Status</b>
<b>PERF (Local)</b>	\$1,790 M	\$69 M	81.6%	75.5%
<b>TRF 1996</b>	\$1,178 M	\$27 M	93.8%	85.4%
<b>Total</b>	<b>\$2,968 M</b>	<b>\$96 M</b>	<b>N/A</b>	<b>N/A</b>
* TRF analysis developed by Nyhart. PERF, C&E, and Legislator DB fiscal analysis developed by Pricewaterhouse Coopers.				

*Local PERF:* An automatic COLA tied to the CPI would increase the present value of future benefits for Local PERF by approximately \$1.79 billion. PERF is actuarially prefunded through employer contributions. Local employer contribution rates average between 11.0% and 11.2% of payroll for CY 2014 (the average is 11.03%). Increases to the local PERF annual employer contribution rates due to this provision would be reflected in contribution rates beginning in CY 2015.

*1996 TRF Fund:* For the 1996 Fund, instituting the automatic COLA in the bill will result in an increase in the present value of future benefits of \$ 1.18 billion. The 1996 Fund is prefunded by employer contributions. The FY 2014 employer contribution rate paid by school corporations is 7.5% of payroll. Increases to the annual employer contribution rates due to this provision would be reflected in contribution rates beginning in FY 2015.

### **Explanation of Local Revenues:**

**State Agencies Affected:** All.

**Local Agencies Affected:** Units with members in PERF and school corporations with members in TRF.

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